

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 DODE-00 PA-01 USIA-06 PRS-01 /090 W

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R 130310Z JAN 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3468

INFO AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

LIMITED OFFICIAL USE HONG KONG 400

PASS TREASURY AND FEDERAL RESERVE BANK

E.O. 11652: N/A

TAGS: EFIN, HK

SUBJECT: REGULATIONS OF INVESTMENT BANKS, FINANCE COMPANIES, ETC.

REF: HK 8262, 7/22/74

1. AS POINTED OUT AT GREATER LENGTH IN REFTEL, HKG'S APPROACH TO REGULATION OF NON-BANK FINANCIAL INSTITUTIONS TRY'S TO RECONCILE THREE OBJECTIVES:

- A) STIMULATE COMPETITION LOCALLY BY INTEGRATING THE FOREIGN OWNED "MERCHANT BANKS,"
- B) PROTECT THE HONG KONG DOLLAR BASE OF THE EXISTING COMMERCIAL BANKS, AND
- C) PROTECT SMALL DEPOSITORS FROM LOSS THROUGH BANKRUPTCY.

2. BY JULY 174, A PROGRAM HAD BEEN WORKED OUT WHICH WOULD ESSENTIALLY HAVE?

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A) PERMITTED SOME MERCHANT BANKS TO OBTAIN A BANKING

LICENSE, MINUS THE ABILITY TO RECEIVE SMALL DEPOSITS AND PROVIDE CHECKING SERVICES, I.E., TO ACT AS A WHOLESALE RATHER THAN A RETAIL BANK, AND
B) IMPOSED MINIMUM CAPITAL REQUIREMENTS AND A DEPOSIT FLOOR FOR ALL OTHER DEPOSIT TAKING INSTITUTIONS NOT HAVING A BANKING LICENSE.

3. BY SEPTEMBER, THE FEARS AROUSED BY THE HERSTATT BANK FAILURE HERE AND ABROAD AND STIFF RESISTANCE FROM THE COMMERCIAL BANKS HAD MADE POINT 2. A. MOOT. ON JANUARY 8, THE FINANCIAL SECRETARY CONFIRMED IN THE LEGISLATIVE COUNCIL, THAT THE GOVERNMENT'S PLAN HAD BEEN SCALED BACK. THE MAIN POINTS OF HIS STATEMENT WERE:

A) NO NEW BANKING LICENSES OF ANY KIND WILL BE ISSUED FOR THE TIME BEING?
B) DEPOSITS OF LESS THAN HK \$50,000 MAY BE ACCEPTED ONLY BY BANKS;
C) ALL NON-BANKING DEPOSIT INSTITUTIONS MUST BE REGISTERED AND HAVE A MINIMUM CAPITAL OF HK\$5,000,000 OF WHICH HALF MUST BE PAID IN;
D) THESE INSTITUTIONS WILL HAVE TO SUBMIT PUBLIC AUDITED ACCOUNTS ANNUALLY AND OBSERVE THE BANK ORDINANCE PROHIBITIONS AGAINST LENDING MORE THAN 25 PERCENT OF PAID UP CAPITAL AND RESERVES TO ANY ONE PERSON OR COMPANY OR, ON AN UNSECURED BASIS, TO DIRECTORS, THEIR FAMILIES OR COMPANIES; AND,
E) NON-BANKS WILL NOT BE AUDITED BY THE BANKING COMMISSION BUT "WHEN WE HAVE MORE INFORMATION...MORE STRINGENT CONTROLS MAY BE REQUIRED."

4. COMMENT: THE RESULTS ARE THAT THE EXISTING COMMERCIAL BANKS HAVE SUCCEEDED IN HAVING THE GOVERNMENT TAKE THE FIRST STEP TOWARD PUTTING THEIR COMPETITORS UNDER THE SAME SORT OF CONTROL TO WHICH THEY ARE SUBJECT. IN THE PROCESS, THE NON-BANK INSTITUTIONS HAVE RECEIVED NO BENEFITS BUT SMALL DEPOSITORS HAVE RECEIVED SOME MARGINAL PROTECTION. ONCE THESE INSTITUTIONS APPEAR ON THE BANKING COMMISSIONER'S LIST, A FAILURE WILL PROBABLY IMPLICATE THE GOVERNMENT, WHATEVER IT MAY SAY NOW, AND FORCE IT TO TAKE THE NEXT STEP OF AUDITING AND CONTROL.
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